PRINCIPLES OF ACCOUNTS FORMULAE

Chapter 3

Basic Accounting Equation:
Assets – Liabilities = Equity

Sole Proprietorship Equation:
Assets – Liabilities + Capital + (Income – Expenses) – Drawings

Chapter 11
Depreciation

Straight-line Method 1:
(Original Cost – Scrap Value) / Useful life

Straight-line Method 2:
Rate of Depreciation per annum (%) x Original Cost – Scrap Value

Reducing Balance Method:
Rate of Depreciation per annum (%) x Net Book Value

Net Book Value:
Cost – Accumulated Depreciation

Chapter 16
Profitability

Gross Profit Margin (%) = (Gross Profit / Net Sales Revenue) x 100

Mark-up on Cost (%) = (Gross Profit / Cost of Sales) x 100

Profit Margin (%) = (Profit for the Year / Net Sales Revenue) x 100

Return on Equity (%) = (Profit for the Year / Average Equity) x 100

Average Equity = (Beginning Equity + Ending Equity) / 2

Liquidity

Current Ratio (Times) = Total Current Assets / Total Current Liabilities

Quick Ratio (Times) = Quick Assets / Total Current Liabilities

Quick Assets = Total Current Assets – Inventory – Prepayments

Inventory Management

Rate of Inventory Turnover (Times) = Cost of Sales / Average Inventory

Day sales in Inventory (Days) = (Average Inventory / Cost of Sales) x 365 Days

Average Inventory = (Beginning Inventory + Ending Inventory) / 2

Trade Receivables Management

Rate of Trade Receivables Turnover (Times) = Net Credit Sales Revenue **OR** Service Fee Revenue / Average Net Trade Receivables

Trade Receivables Collection Period = Average Net Trade Receivables / Net Credit Sales Revenue **OR** Service Fee Revenue

Average Net Trade Receivables = (Beginning Net TR + Ending Net TR) / 2